



CHEMONICS INTERNATIONAL INC.



***CENTRAL AMERICA AND DOMINICAN REPUBLIC
QUALITY COFFEE PROGRAM (CADR QCP)***

**Quarterly Activity Report
October 1 – December 31, 2003**

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Submitted by:

**Chemonics RAISE Consortium: Chemonics International
Incorporated, with Prime International, J.E. Austin Associates
and NCBA/CLUSA**

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SECTION I: EXECUTIVE SUMMARY

QCP-assisted producer groups have sold 11 containers of specialty coffee at premium prices in the one year period from project inception through the end of 2003. Each of these sales was a direct result of new market linkages and QCP technical assistance. Eight of these containers were sold during the period covered by this report, including five with Rainforest Alliance certification and three that were certified organic. All these sales were made to new buyers to these producer groups. Given that most sales for the current harvest period are still to be executed and reported, this bodes well for achievement of our sales volume target of 50 containers by the end of FY'04, and of 100 containers through the current September 12, 2005 end date of our Task Order Contract.

Nevertheless, the “coffee crisis,” which brought world attention to the plight of Central American producing countries and gave rise to the USAID initiative, has not lessened substantially. This is true especially in its social and economic effects on small and medium growers and the farm labor that the sector employs. Though it is universally recognized that the coffees of Central America, Panama and the Dominican Republic [CADR] are among the best in the world, structural changes in production and consumption in the global coffee industry continue to adversely affect this region.

There is growing acceptance that resolving the crisis will also require complementary actions within and outside the coffee sector. Long-term relief can best be achieved by focusing on the coffee markets in which the region has a comparative advantage and diversifying opportunities for investment and employment in other agricultural and non-agricultural activities.

With the first anniversary of QCP rapidly approaching, there has been time to evaluate several aspects of the program and rethink strategies and realities in light of this experience. QCP was couched in terms of a marketing program, in which the key to success would be gaining access to higher-price markets. During the past year it has been confirmed that the major problem facing small and medium producers, especially those working through cooperatives and associations, is not only market demand, or even access, but also the ability of these target producers to understand and satisfy that demand where it exists and is growing rapidly. Technical assistance to our targeted producer groups that builds capacity to understand and satisfy that demand on a sustainable basis is the QCP's primary activity.

QCP has had a large degree of success in attracting serious interest among important buyers of quality coffees. The challenge to be met is to enable small producers to satisfy the requirements of those buyers and convert this interest into demand and sales. In order to create a competitive capability in the small producer client groups, intensive work is required in one or all of the three component areas of the program: quality, enterprise development and marketing. This has led to revision in strategy, design and implementation which is manifested in the following:

- Prioritization of targets, including countries and client groups;
- Increased technical personnel in priority countries;
- Focused technical assistance with priority client groups; and,
- Alliances with *market-oriented organizations* which will increase the competitiveness of client groups.

The allocation of core QCP resources among CADR countries reflects market potential and complementary resource availability. The in-depth attention that the program will provide to major client groups will support and strengthen competitive business organizations and, as the methodology is perfected, serve as models for other groups with potential for entering select, targeted markets. Program resources, core and other, will be focused on specific client groups which offer the best match in volume and quality for specific buyers and/or coffees with strong market demand, e.g. SHBs, certified, etc. Finally, the alliances sought by the program are those which increase value-added and/or market access for client coffees.

The marketability of coffees of the region and client groups continues to be the principal criterion for program direction and execution. It is evident, however, that the focus must shift to guaranteeing the competitiveness of the small farmer in a market that has heretofore belonged to exporters and estate coffees.

SECTION II: REGIONAL ACTIVITIES DURING THE REPORTING PERIOD

A. Star Cupper Program

For the past few years, the Specialty Coffee Association of America (SCAA) and its affiliate, the Coffee Quality Institute (CQI), have been exploring a mechanism that would operate within the New York Coffee Exchange and differentiate the trade in specialty coffees from that of commercial coffee. This endeavor has resulted in developing the concept of the “Q” contract for specialty coffee, as opposed and in addition to the C-Contract, which currently sets the reference price for commercial Arabica coffees.

The Star Cupper Program is designed to build the capacity of participating countries in the region to assess coffee quality through cupper training. QCP is jointly implementing Star Cupper with the Coffee Quality Institute (CQI), which seeks to identify and prepare qualified “Q” graders that could be selected to certify coffee to be traded as high quality. CQI provides volunteer trainers through its “Coffee Corps” activity and serves as a link with the Specialty Coffee Association of America (SCAA), which provides some of the curriculum for the “Q” portion of the training.

During this reporting period, a total of 94 individuals from five of our participating countries were assessed for participation in the program. Panama was not included since the Ministry of Agriculture had not signed the MOU with USAID, and it was determined that the Dominican Republic had too few qualified cuppers who could realistically reach the level of Star Cupper. Assessments were based on three criteria:

- Sensory analysis: A three part test that measures candidate natural ability to recognize the three basic flavors – sweet, salty and sour;
- Triangulation: A two part test that measures candidate ability to recognize differences in coffee; and
- Theoretical exam: A written exam on general market information, cupping standards and coffee agriculture.

Of the 94 tested, a total of 55 were selected as Star Cuppers, 10 each in Guatemala, Honduras, El Salvador and Nicaragua, and 15 in Costa Rica. One training session was conducted in November for this select group, addressing the theme of the Commercial “C” Market and transitioning to the Specialty Market.

B. QCP Cupping Laboratory

By early-January, the QCP in-house cupping laboratory will be fully functional. This lab will allow us to assess coffee quality of our participating producer groups the impact of changes implemented at the mill level. The lab equipment has been procured, and in January our producer groups will be notified that they can begin to send samples for analysis. A cupping report will then be submitted via e-mail to each group submitting a sample. Cupping records will be maintained in the lab to track quality improvements of each group over time. The lab will also be used for training purposes.

C. Monitoring and Evaluation Plan

Chemonics evaluation specialist Chris Payne spent 10 days with QCP staff in December to help modify and refine our monitoring and evaluation plan. The plan now includes an expanded list of 24 indicators combining those from our Task Order Contract with additional ones that are considered important for measuring the impact of our activities. We will begin collecting this information during the next reporting period, and hope to include the complete list of performance-to-date measures in our next quarterly report.

D. Specialty Coffee Associations

Grants for the individual country specialty coffee associations, as well as to the Regional Specialty Coffee Association, have been delayed until the contract amendment authorizing us to issue these grants and provide additional resources is received. This has resulted in some consternation by several of the associations, who were advised that the grants would be awarded by now. Individual grants will involve a funding level of up to \$25,000 for a one year period, which would be allocated to a manager’s salary, purchase of computer equipment, technical assistance to develop strategic and business plans, and implementation of activities outlined in these plans. A grant to the Asociación de Cafes Finos of Costa Rica would fund a training for wet milling in that country.

E. Certification Activities

Chemonics signed three subcontracts with Rainforest Alliance during this reporting period totaling just under \$550,000. One of the subcontracts governs activities in Nicaragua, another in El Salvador, and the third for regional activities. Activities are oriented toward: (1) disseminating and promoting the vision of sustainable coffee in the region; (2) promoting sustainable coffee certification through the Rainforest Alliance certified program; (3) assisting producers in meeting Rainforest Alliance certification standards; and (4) marketing sustainable certified coffee. Activities during this reporting period primarily involved hiring staff, setting up, and providing initial training to certifiers and auditors in El Salvador. As of this writing, we have not received the quarterly report from Rainforest Alliance for their activities through the end of the quarter. This has inhibited our ability to report in more detail the activities of Rainforest Alliance for this reporting period.

F. Newsletter

QCP issues a brief monthly electronic newsletter which highlights issues of interest concerning our program. We have used the newsletter to publicize the work of our subcontractors, such as Rainforest Alliance and ForesTrade, and one which provided an exclusive focus on our activities in El Salvador. A new, more colorful and professional format was developed and used for the November and December issues. Newsletter editions in the coming quarter will include pieces such as the work of the three faith-based groups in Nicaragua, the Cup of Excellence program in El Salvador, as well as articles on other selected topics.

G. Coffee Consumer Research Study

Based on comments and discussions with companies such as Starbucks and Proctor and Gamble, the Marketing Advisory Group (MAG) Steering Committee has drafted a proposal for surveying consumer opinion regarding sustainable and high quality coffees in the United States. To date, there are no results from such a survey that are publicly available. This survey would serve two purposes:

- It would help guide MAG members regarding what consumers demand and therefore what coffees should be promoted; and
- It will help origin develop marketing campaigns that are directed at the consumer and can be used by roasters.

The study would be co-financed by several of the leading U.S. importers and roasters, many of whom are members of our MAG group, and is a good opportunity for QCP to leverage private resources for public-private partnership efforts. We have requested USAID guidance on whether such a study would be appropriate, given concerns about using public funds for an activity that might influence U.S. consumer behavior.

H. Creating Regional Market Opportunities

Boyd's Coffee, a large private label roaster based in Portland, Oregon, has agreed to join the QCP Marketing Advisory Group (MAG). A series of cupping sessions were also organized with DR Wakefield, a major European roaster that has expressed a high degree of interest in certified coffees from QCP clients. These cupping sessions helped to establish minimum standards for quality requirements. The next stage of this process is to help our producer groups understand how to achieve these quality standards at the mill. We also met with Starbucks at the SinterCafé Conference in Costa Rica during this reporting period. As an outcome of this meeting, QCP has been invited to sit on a strategic committee of NGOs and Starbucks in Central America and participate in a monthly conference call. In addition, QCP met with Starbucks and CARE International to discuss possible alliances at the field level. Starbucks will be opening a technical office in Costa Rica in early 2004, which will initially employ two technicians. Eventually Starbucks intends to expand operations to all Central American countries, updating its preferred supplier scheme next year to make it more relevant to origin.

Other meetings at SinterCafé included Kraft, Van Houtte and Dunkin' Donuts. Kraft aims to procure 2,500 metric tons of certified Rainforest Alliance coffee from the current crop, which it wishes to expand to 10,000 MT over the next few years. Kraft expressed particular interest in Ciudad Barrios and La Majada in El Salvador, and COHORSIL in Honduras. Van Houtte expressed interest in procuring project coffees, and we will be following up on this. Our discussions with Dunkin' Donuts focused on prospects for identifying FEDECOCAGUA as a provisional preferred supplier, which has recently been granted. Finally, representatives from Sara Lee and Kraft have confirmed scheduled visits to QCP clients in Guatemala and El Salvador for the end of January.

Interest in Rainforest Alliance certification is growing rapidly due to the Kraft alliance with RA. However, we are observing new companies and cooperatives that are keen to enter the program but have very optimistic expectations. We will focus our immediate activities on those groups with at least six months experience with RA before initiating work with new groups after the current harvest. In this way, we can better focus our resources on where they might have the greater impact.

As a program, we are finding a great deal of interest from various serious buyers in the United States, Europe and Japan. While the potential for these buying opportunities is large, we are wary of creating undue expectations until the buyers start making real commitments. In essence, there is a great deal of background negotiating and positioning between buyers, sellers and the QCP program.

SECTION III: INDIVIDUAL COUNTRY ACTIVITIES DURING THE REPORTING PERIOD

A. EL SALVADOR

Cooperativa La Majada: QCP has helped link La Majada with the U.S., European and Japanese markets. A buyer visit from Konrad Brits of Continental Trade and Commodity Services Limited (CTCS) was conducted during this reporting period and we assisted La Majada to prepare promotional materials and tours for this visit. As a result of this visit, La Majada is now sending weekly offer sheets to CTCS, which in turn is offering these coffees to its network of European roasters. Mr. Brits also indicated that CTCS was open to supporting producers with pre-harvest financing.

QCP also sponsored the participation of the president of La Majada on a trip to Japan to participate in a selling and promotional tour organized by Rainforest Alliance. The presence of La Majada and Salvadoran Rainforest Alliance were specifically requested by Japanese buyers and roasters.

Finally, QCP organized a visit by producers from La Majada to CTCS' installations in Nicaragua to learn the technical requirements of wet and dry milling for specialty coffees.

El Volcán Exporters: QCP has helped link the exported El Volcán with DR Wakefield, a large European importer with specific interest in Rainforest Alliance certified coffees for a number of large roasters who wish to develop sustainable product lines. We assisted both the buyer and El Volcán to develop the product that is of value to the roaster, including development of promotional materials that were sent to the buyer. As a result of these efforts, DR Wakefield purchased five containers of Las Lajas Rainforest Alliance certified coffee from El Volcán during this reporting period. This purchase had an additional value of \$51,500, meaning the sale price exceeded the commercial value of the coffee by this amount.

Other Marketing Activities: Our Marketing Specialist delivered a presentation about helping producers and exporters to develop specialty business at the event entitled the "Día Salvadoreño del Café" in October. This event was attended by the Minister of Agriculture and more than five hundred producers and other individuals involved in the Salvadoran coffee industry.

Promotional Plan for Salvadoran Coffees: Our subcontractor in El Salvador, Sistemas Empresariales de Mesoamérica (SEM), has developed an advisory committee that meets regularly and is comprised of some of the leading producers groups and exporters in that country. This committee began debate on how best to initiate the process for developing a country-wide promotional plan for strengthening El Salvador's position in international specialty coffee markets. The consensus of the committee was that the major players in El Salvador's coffee industry are not sufficiently united to come to agreement on the design and implementation of such a plan. The committee proposed a retreat for the key organizations in order to root out the divisive issues and facilitate creation of a better

working environment. This event was conducted December 12-15 at the Centro Tecnológico Cafetalero of PROCAFE, and formally opened by the Minister of Agriculture. The results were formally presented at a breakfast meeting in San Salvador on December 22, again with the participation of the Minister of Agriculture, as well as USAID/El Salvador representatives. The primary result was the need for a working environment characterized by mutual confidence and self-respect that would allow the various elements of the sector to proceed. The consensus was that the conflicts which divide the major players were having damaging effects on ability of the Salvadoran coffee industry to compete in world markets. The advisory committee will meet early in the next reporting period to further discuss plans for developing a joint strategy for promoting Salvadoran coffees.

Quality Improvement: In addition to El Salvador's participation in the Star Cupper program, QCP trained 61 small producers during this reporting period in improved wet milling practices. Participating organizations included La Majada (13 participants), El Volcán (7 participants), Ciudad Barrios (15 participants), Cooperative Siglo XXI (19 participants), with the remainder of the participants representing CLUSA, PROEXCAFE and Cooperativa Jabalí. The training program, entitled "Best Practices for the Processing of Quality Coffee," was conducted by the QCP wet milling specialist along with SEM technicians. The program also included representation by USAID/El Salvador and the Consejo Nacional de Café. Follow-up visits were conducted to Siglo XXI and Jabalí to assess current wet milling processes and offering recommendations for correcting processing deficiencies in order to yield coffees with the kinds of standards needed to compete in the premium coffee market.

Cooperativa Ciudad Barrios: Plans are under way for sponsoring the "First Competition of Specialty Coffees of Cooperative Ciudad Barrios," to take place at this cooperative on February 20-21. This competition serves as a follow-up to the wet mill training conducted in El Salvador during this reporting period described above. The purpose of this competition is to award recognition to those producer members that have made wet mill processing improvements yielding higher quality coffee that can help producers compete in international markets. We also initiated actions to explore prospects for securing Rainforest Alliance certification of 600 manzanas of member farms.

Cooperativa Siglo XXI: The visit by the QCP wet milling specialist to this cooperative on December 3 resulted in a number of suggested improvements, including more rapid collection of coffee in order to reduce the risk of spoilage and avoid accumulation, daily cleaning of depulpers, necessary dryer repairs, and closer monitoring of producers to reduce deliveries of green cherries from the current 12% to 2%. Cupping samples revealed inconsistent quality.

Cup of Excellence Program: QCP is subcontracting with NCBA/CLUSA for coordination of this year's Cup of Excellence program in El Salvador. CLUSA was selected as the subcontractor given its successful implementation of 2003 COE activities on behalf of USAID, as well as its emphasis on ensuring the participation of small producers in the process. Activities initiated during this reporting period included

training of small producers on how to harvest for quality, proper transport and storage of coffee once harvested, and sample selection and preparation. Initial contacts were made and training conducted with selected Salvadoran national cuppers in the appropriate use of mini-laboratories. The mini-lab concept has the power to revolutionize small producer education and coffee quality improvement in this increasingly competitive and demanding market. Four mini-labs will be installed. More than 20 cooperatives and 300 small and medium-scale producers are being trained in nine departments of El Salvador for participation in the 2004 Cup of Excellence program in El Salvador. CLUSA is working closely with the Consejo Salvadoreño del Café to transfer skills in implementing Cup of Excellence as a means of institutionalizing this event. It is hoped that the Consejo will be prepared to assume responsibility for implementing this event in 2005.

B. NICARAGUA

Atlantic Coffee: We have continued to develop linkages with Atlantic Coffee in Nicaragua for marketing coffees from the Bosawas buffer zone area. The unique aspect of this arrangement is using Atlantic, an exporter, to coordinate activities and markets among non-affiliated small producers, a role usually performed by cooperatives and associations. Atlantic, with GTZ funds, will hire twelve field technicians to be trained by QCP Nicaragua field staff in internal audit and control mechanisms at the community level, while Rainforest Alliance would provide training in certification techniques. Each community group will in turn select three internal inspectors from their own communities. More than 200 producers will be involved. Atlantic Coffee is quite enthusiastic about the idea, although one concern is the vast geographic area such a program would cover which includes Waslala, Rancho Grande, El Cuá-Bocay and Wiwilí. Next steps involve a visit to the Bosawas area by QCP field staff in order to determine field level requirements for designing and implementing such an activity.

SOPPEXXCA: The QCP Enterprise Development specialist conducted a diagnostic with SOPPEXXCA during this reporting period. SOPPEXXCA, located in Jinotega, is comprised of twelve cooperatives and 450 producers (180 women) that export 17,000 quintales of organic coffee per year. Seventy percent of the volume exported is Fair Trade certified, and ninety percent is exported to Europe. An additional 150 producers are expected to join member cooperatives in 2004. One identified strength of SOPPEXXCA is its strong export market linkages. Weaknesses identified include systems for traceability and quality control since individual producers wet mill their own coffee. A partial feedback of results was presented in December, although this did not include financial information since these were not provided during the assessment. We will follow-up early in the next reporting period to secure this information and develop a business plan to address identified weaknesses and opportunities.

Faith-Based Organizations: The nature of the assistance QCP would provide to World Relief, Catholic Relief Services and Lutheran World Relief had become a festering issue affecting our Nicaragua program. Our Action Plan presented to USAID for the Nicaragua buy-in in August had originally proposed commissioning a study that would assess the marketing approaches they are currently using to market coffee to their church-

affiliated groups in the U.S., explore additional market segments to target and examine strategies for targeting those segments. The latter might include private-label sales, co-branding, marketing arrangements with certifiers, etc. We also proposed helping the FBOs to expand their links with producer groups, thereby broadening the range of suppliers they could potentially source. Since the buy-in was actually executed and the buy-in funds transferred to G-CAP, we proceeded to develop activities according to the workplan we logically assumed was approved by USAID/Nicaragua and G-CAP.

However, the FBOs ardently claimed that commitments for a considerable portion of our buy-in funds were previously made to them by the Mission, and considered our action plan unacceptable. They fully expected, indeed demanded, that funds be made available from the Mission's buy-in to fund their individual programs. The Mission, for its part, was very clear with us that the FBOs are considered among its core activities. After extensive consultations with the parties involved, we were directed by the Mission to propose a plan that would carve off a considerable piece (35%-40%) of our buy-in funds to provide direct financial support to the three individual programs.

In November, both USAID and the FBOs agreed to a plan that would provide approximately \$150,000 to each of the three organizations for their individual country specialty coffee programs. The total of \$450,000 to be made available to the FBOs constitutes approximately one-third of our Nicaragua buy-in resources, which total \$1,362,000 when the \$338,000 to be allocated to Rainforest Alliance is considered. Once this agreement was reached, we met with the FBOs to discuss their project ideas, and proposals were presented toward the end of the reporting period. We are currently in the process of negotiating subcontract language with all three. Subcontracts were considered the most appropriate and expeditious mechanism, since our Task Order Contract does not provide for grants to U.S. nongovernmental organizations.

It is important to consider that this allocation to the FBOs was not part of our original plan. Our annual workplan and performance indicators were prepared with the assumption that the \$450,000 allocated to the FBOs would actually be available for our own direct activities. We were happy to comply with the Mission's desire to provide financing to the three FBOs; indeed, we believe they will add an important element to our program given their historical in-country presence, linkages with small producers, and access to church-affiliated groups in the United States. Indeed, we will endeavor to integrate them into our other activities within Nicaragua to the extent they wish and is appropriate. It is important to consider, however, that support for these activities may not appreciably contribute to our ability to meet our own performance indicators.

Administrative issues: The QCP Nicaragua field office is now fully functional. Country Director Robert Wilkinson, Agribusiness Specialists Erick Baca and José Manuel Moraga, and Administrative Assistant Xaviere Tellería were contracted in December. Offices were identified and a lease signed, equipment purchased, quotations for purchase of vehicles initiated, and workplans developed with the newly-contracted staff.

C. GUATEMALA

FEDECOCAGUA: QCP continues to assist FEDECOCAGUA to develop a variety of markets. These include the fair trade market with Dunkin' Donuts as well as two major European traders. Of these traders, one is specifically interested in fair trade coffee, and the other (CTCS) has expressed interest in gourmet coffees and is willing to invest in the development of the product at origin. Dunkin' Donuts has confirmed that FEDECOCAGUA is now registered as a DD exporter, and will visit in January. Three importers have already delivered written congratulations to FEDECOCAGUA on this successful entry into a new market. QCP arranged a visit to FEDECOCAGUA by Konrad Brits of CTCS. This visit addressed several important issues related to this association:

- All buyers, especially Starbucks, are moving in the direction of transparency and traceability.
- Development of a simple system that demonstrated transparency and traceability of Starbucks product was essential if a supplier wanted to be successful. Mr. Brits suggested that employing a third party such as a qualified audit firm to confirm that the supplier is complying with the Starbucks preferred provider scheme was an effective way to achieve this.
- CTCS would like to offer FEDECOCAGUA coffee on a regular basis to show clients of CTCS that they were in the market with Guatemalan quality coffees.
- After cupping a variety of FEDECOCAGUA coffees, we discovered wide variations of cup profiles. While FEDECOCAGUA believes this is a consequence of working with small producers, Mr. Brits explained that this could actually be used a strength once the miller understands how to blend coffees to meet certain cup profiles.

Results of our diagnostic of FEDECOCAGUA were presented in November. One major identified weakness was its management information systems, to include accounting, control of milling and storage facilities, inventory controls and export volumes. We offered technical assistance to design and install a new system, to include standards for transparency and traceability demanded by the market. This assistance will commence early in the next reporting period.

ACODIHUE: This is an association comprised of 17 cooperatives representing approximately 12,000 families. A diagnostic was performed during this reporting period to determine if this organization should be included in our 2004 activities. In 1999, this association collected 35,000 quintales of parchment, but this harvest is projected to only 15,000. This dramatic reduction is the result of higher prices being offered by intermediaries. ACODIHUE is in process of receiving Rainforest Alliance certification for 400 manzanas of high altitude coffee. Identified weaknesses include high credit delinquency rates of its members, lack of strategic focus for promoting its coffee, and

cash flow problems. Results of the diagnostico will be presented in January, after which a decision will be taken regarding including this association in our activities. A representative of ACODIHUE also attended the Rainforest Alliance event in Japan to establish contacts with buyers and roasters.

Asociación de Productores de Café de El Baluarte: Baluarte is a recently formed (2002) organization that has attracted the interest of Green Mountain Coffee Roasters for its blends. Green Mountain purchased three containers during the 2002-2003 harvest, and it awarded Baluarte a premium of \$10 per quintal for its high quality. It represents 180 producer members, and a production volume of 2,200 quintales. QCP performed a diagnostic with this group during the previous quarter, which identified various administrative and financial management weaknesses. These weaknesses threaten to undermine Baluarte's ability to consistently deliver high quality coffees to Green Mountain. QCP staff visited Baluarte in late-December to present the diagnostic results to a meeting of its members, and to press the importance of addressing identified weaknesses to be able to take advantage of the interest expressed by Green Mountain. Internal conflicts among the members continue to be a roadblock to resolving satisfactorily addressing these problems.

Cooperativas Baluarte and Acatenango: In addition to the activities with Baluarte described above, technical assistance in wet and dry milling was directed to Baluarte and Cooperativa Acatenango during this reporting period. As Baluarte has attracted the interest of Green Mountain, Acatenango has attracted similar interest from CTCS. Our assistance is designed to help correct processing deficiencies so that these cooperatives can deliver the quality demanded by these buyers. Particular attention was paid to wet processing, fermentation, and washing and drying procedures. Corrections were made to the depulping processes being used, as well as establishing a maximum temperature of 40 degrees Celsius in the dryers. QCP also trained three individuals to cup coffees directly on the farm through the use of mini-labs in order to detect and correct basic defects.

ForesTrade: QCP is developing a subcontract with ForesTrade of Brattleboro, Vermont to secure organic and Fair Trade certification status in 23 Q'eqchi and Pokomchi communities of the Sierra de las Minas region of Guatemala. The one year, \$20,000 subcontract will result in export sales of four containers of organic or Fair Trade coffee and 300 small producers training in certification and better farm management practices. The activity is designed to increase farmer profits through improved quality control, introduce sustainable production methods and promote transparency and democratic processes in the commercialization of coffee and within producer groups. This activity will extend QCP activities to serve small producers living in remote areas who ordinarily cannot participate in such programs.

D. HONDURAS

COHORSIL: QCP is supporting COHORSIL's Rainforest Alliance certification initiative with 67 producers. COHORSIL expects to have ten containers of RA certified

coffee available for sale in 2004. We are also assisting COHORSIL to connect with two major roasters who are actively seeking this coffee for the coming year.

La Coordinadora: This group has requested QCP technical assistance for their certified organic and fair trade coffees. It is currently searching for markets and seeks help on quality control. La Coordinadora is currently working with COHORSIL, which is processing and exporting the coffee. QCP technicians will return during the next reporting period to determine how we can support its initiatives.

Sociedad de Productores de Café Orgánico del Marcala: This organization is sending offers through Highland coffee to Volcafé Specialty/Allegro for the coming season. Three containers of certified organic coffee were sold during this reporting period at a variety of specialty prices. Buyers were Volcafé/Allegro (which bought at US\$95), Benicke (which bought at US\$86.70) and HACOFCO (NY +10). These sales brought \$25,500 in additional value. Marcala has four additional containers of organic left for sale, as well as an additional seven containers of conventional coffee. QCP also conducted a training workshop on wet milling during this reporting period, attended by 35 producers of this organization. We are also providing assistance in construction of a wet mill, which should be completed by mid-January.

COCAMOL: This cooperative is comprised of a small group of primary cooperatives in the Ocatepeque region with potential for producing excellent quality coffee. QCP technicians have committed to returning early in the next reporting period to explore prospects for providing assistance to this organization.

Sociedad de Productores de Café Orgánico de Marcala: We conducted a diagnostic with this association during the reporting period. It is comprised of 56 small producers, 19 of whom are women. It represents 210 manzanas of certified organic coffee. Marcala is administered by FUNDER, a development foundation which incubates producer groups until they are ready to function as independent entities. In 2004, Marcala will become independent, and QCP is assisting it to successfully function in this status. Identified weaknesses include little capacity to manage a wet mill, various financial management and quality control deficiencies. A follow-up visit is scheduled for February in order to deliver results of the assessment. In addition, the QCP wet mill specialist has provided technical assistance in installing a wet mill and training Marcala staff to manage it.

E. COSTA RICA

Costa Rica did not receive major attention during the fourth quarter. Activities centered on Cooperative Palmares and cooperative association CAFECOOP. In the case of the former, QCP presented the results of the MIS assessment. Management was in agreement with the findings and recommendations, but has encountered some opposition to implementing them from the board of directors because of the costs involved. With respect to CAFECOOP, we supported the president's request for partial financing for the participation of the manager in SINTERCAFE, as well as for constructing a stand for the

event and preparation of promotional materials. This support to CAFECOOP was the initial step in further cooperation, especially in the areas of quality control and marketing.

F. PANAMA

No activities were conducted in Panama during this reporting period. The Ministry of Agriculture had not signed the Memorandum of Understanding with USAID governing its participation in USAID-sponsored activities. The MOU was eventually signed toward the end of the reporting period. The nature of our activities remains to be defined in Panama. We had originally proposed providing technical assistance to the producer group Cooperativa Boquete as a means to strengthen its position in the specialty coffee market. We had also proposed to provide assistance to the Specialty Coffee Association of Panama through a small grant once our Task Order Contract is amended to allow us to offer such grants. However, both the Ministry of Agriculture and USAID/Panama had urged us to work with several small producer groups without significant potential for entering the specialty market, which did not appear to us to be an optimal use of our resources. Our CTO has scheduled a visit to Panama early in the next reporting period to further discuss this issue.

G. DOMINICAN REPUBLIC

QCP consultant Steve Aronson, Founder of Café Brit, conducted a study on the potential of marketing quality coffee through the tourist industry in the DR. An initial draft was presented, which was presented for our review. Recommendations of the study included that developing a quality coffee market draw on the experience of the successful Dominican cigar industry with respect to product quality and promotional strategy. The final report, which will reflect QCP comments and observations, is expected early in the next reporting period.

The QCP cupping specialist visited the DR during this reporting period to meet Star Cupper candidates and learn the French government financed CIRAD selection strategy in order to ensure it is in line with our own. The head of the CIRAD quality division was involved in the selection of the 20 candidates. While the tests were well-conducted, the evaluations proved difficult to explain to the participants. All the candidates selected were new cuppers with little or no cupping experience. If they are to participate, they will have to be integrated into a smaller scale program that emphasizes the basics. The Star Cupper members in Costa Rica will return to the DR during the next reporting period to conduct a week-long training session on basic cupping practices for a group selected from among the 20 candidates. CIRAD tends to favor a more theoretical approach to quality, which is a good balance to our more practical approach. Together, these combined approaches should help cuppers implement improved quality practices in their companies.

The USDA representative has expressed his concern that the DR is disconnected from QCP. We have discussed this concern with our CTO, who together with the QCP Chief

of Party will visit the DR in February to discuss how the DR can be more integrated into the program.

SECTION IV: PLANNED ACTIVITIES FOR JANUARY-MARCH, 2004

REGIONAL:

- MAG Group meeting at the National Coffee Association conference in Dana Point, California in March; QCP Marketing Adviser invited to speak on NGO coordination with coffee business chain.
- Initiate consumer research study with U.S. coffee industry leaders, results of which will help origins develop promotional campaigns targeted to the U.S. market.
- Nestle's conducts Quality Control seminar in Antigua February 9-10 for participating producer groups (El Volcán of El Salvador, PRODECOOP and CECOCAFEN of Nicaragua, and COHORSIL of Honduras).
- CTCS conducts three one-week quality control trainings during first three weeks of February, one each for FEDECOCAGUA (in Guatemala), La Majada (in El Salvador), and COHORSIL (in Honduras).
- Ongoing implementation of the Star Cupper program for the 55 participants already identified as Star Cuppers in the five currently participating countries; training in wet milling for star cuppers; develop an MOU with CQI that details understandings and intentions of the parties involved (CQI and Chemonics) with the shared goals of the program.
- Receiving samples and doing quality assessments in our in-house cupping laboratory for all participating producer groups in the region.

NICARAGUA

- Atlantic Coffee Bosawas Program: Planning for internal control systems for the Bosawas producers of Atlantic Coffee; visit to the farms in the Bosawas protected area to be included in the Atlantic program; design of formats for development of internal controls; planning for a series of workshops on internal controls for producers.
- SOPPEXXCA: Identify quality control needs; support for control of traceability in coffee production; support for collection and processing standards consistent with the demands of certifying bodies; establish connections with other organizations and producers in Jinotega; development of business plan; training for board of directors in functions of the board; T/A in formally converting from a sociedad anónima to a cooperative.

- CAFENICA: Meet with CAFENICA to discuss possible areas of QCP support; define level of support to be provided by QCP to CAFENICA and its members; diagnostics with coop members of CAFENICA identified as clients of QCP.
- Rainforest Alliance: Training in certification processes and auditing processes for participating producer groups, Nicaraguan exporters, NGOs in February; training to be conducted in two phases: a three-day course for independent auditors to conduct audits for certified farms, and a more general one-day course for NGOs as an introduction to the Rainforest Alliance certification program.
- Staff Development: Develop marketing strategies with selected primary producer groups using existing business chains; continue to refine administrative procedures within our newly-established Nicaragua office; procure vehicles for staff use.
- Faith-Based Groups: Finalize negotiations and sign subcontracts with each of the three groups; perform initial monitoring visits; work with Mission and FBOs to conduct a PR activity to promote these programs; invite FBOs to participate in QCP training programs, such as Rainforest Alliance certification procedures.
- Identification of New Groups: Once identified, conduct diagnostic assessments and develop technical assistance plans.
- Training in Traceability and Transparency: Conduct joint training in these topics for participating producer groups.

EL SALVADOR

- Cooperativa Las Lajas: Training of individual producers of Las Lajas for Rainforest Certification; arrange buyer visits by Kraft, Gala Coffee; with El Volcán, development of strategic plan for possible Gala contribution of \$10,000 toward for health and education programs for Las Lajas producer families; quality control training by CTCS.
- Marketing and Promotional Plan: Based on results of the retreat attended by key leaders in the Salvadoran coffee industry in December,
- Cooperativa Ciudad Barrios: Conduct first specialty coffee competition among producer members of the Cooperativa Ciudad Barrios to take place February 20-21.
- Cup of Excellence Program: Formally execute subcontract with CLUSA for the Cup of Excellence program; technical training to prepare national cuppers in mini-lab cupping in order to transfer technology to producers; install four mini-labs.

- Cupping Norms and Standards: Development of cupping norms and standard for producer group laboratories that have cupping labs, i.e., Las Lajas, La Majada, Ciudad Barrios, and El Volcán.
- Business Plans: Development of business plans for La Majada, Ciudad Barrios, El Volcán, and PROEXCAFE.
- La Majada: Consultant Jeremy Wakeford will be contracted to establish quality control mechanisms for cupping lab and dry mill construction for La Majada; MIS diagnostic assessment to be conducted; initiate implementation of new MIS system.
- Sara Lee: A vice president of Sara Lee will visit client groups and coffee institutes in El Salvador early in the next reporting period.
- Cost Controls: Installation of cost control systems within participating producer groups.
- Market Intelligence: Initiate website for market intelligence system housed in the Consejo Salvadoreño del Café.

GUATEMALA

- Training in establishment and operation of mini-cupping laboratories for members of Cooperativas Acatenango, Renacimiento, Tajumuco, and Asociación Baluarte.
- Sara Lee: A vice president from Sara Lee will visit client groups early in the next reporting period.
- FEDECOCAGUA: Initiate implementation of new MIS system.
- Traceability and Transparency: Joint training of boards of directors participating producer groups on these themes.
- Technical assistance to cooperatives Baluarte, Tajumuco, Renacimiento, Acatenango and Yepocapa to consolidation of producer groups and association strengthening.

HONDURAS

- Cafes Organicos de Marcala: Assist in development of market linkages for the remainder of their coffee of this harvest season; training in board of director development and wet mill management.
- COHORSIL: develop market linkages for its Rainforest Alliance certified coffee.

- Initiate process of establishing on-the-ground technical assistance team in Honduras.
- FUNDER: Development of business plan and technical assistance in the transition from an association to a cooperative.
- Identification of new producer groups to participate in the program.

COSTA RICA

- Cooperativa Palmares: Technical assistance in business plan development; initiate implementation of MIS system.
- Cooperativa Atenas: T/A in preparation of short-term plan of activities.
- CAFECOOP: Training for primary cooperatives in financial management and cost controls; training and advisory services for quality control to CAFECOOP member cooperatives.
- Instituto Costaricense de Café (ICAFE): Participate with ICAFE in training in cost controls and financial management for primary cooperatives.
- Policy Study: Initiate policy study covering one or two areas of particular interest to ICAFE;
 - The role of coffee plantations in carbon fixation;
 - Modifying pricing policies to favor differentiated and specialty coffees.

PANAMA

- Visit by the CTO in January to meet with USAID and Ministry of Agriculture to discuss resumption of QCP activities in Panama, given recent signing of the MOU by the Ministry of Agriculture;
- Resolve issue of the nature of our involvement in Panama, i.e., technical assistance to the Cooperativa Boquete and a small grant to the specialty coffee association of Panama; and the extent to which we would provide more limited assistance to the smaller groups as desired by USAID/Panama.

DOMINICAN REPUBLIC

- Visit to the DR in February by the CTO and COP to assess next steps;
- Finalization of study of marketing quality coffee through the tourist industry, and planning for next steps;
- Follow-up Star Copper training in February.